
TAXING THE FUTURE: CRYPTOCURRENCIES, TOKENISED ASSETS & CENTRAL BANK DIGITAL CURRENCIES UNDER THE INCOME TAX ACT, 2025

Arka Bhattacharya, Advocate

ABSTRACT

As India prepares to usher in the Income Tax Act, 2025 (ITA 2025), the fiscal architecture surrounding digital assets undergoes a transformative recalibration. This article offers a rigorous, forward-looking analysis of how cryptocurrencies, tokenised securities, and Central Bank Digital Currencies (CBDCs) are classified, valued, and taxed under the new regime. Departing from the fragmented and often ambiguous provisions of the Income Tax Act, 1961, ITA 2025 introduces a unified “Tax Year” system, streamlined compliance protocols, and explicit definitions for Virtual Digital Assets (VDAs), thereby aligning domestic law with global best practices.

Through comparative tables, statutory interpretation, and practical illustrations, the article elucidates the treatment of VDAs across heads of income, the nuances of TDS/TCS applicability, and the valuation methodologies tailored for illiquid and tokenised instruments. It further explores the integration of anti-money laundering (AML) obligations under PMLA 2002 with tax reporting mandates, highlighting the emergence of a closed-loop compliance ecosystem. Special attention is devoted to the CBDC framework, which—while excluded from VDA classification—raises novel questions around traceability, cash-equivalent treatment, and auditability.

The article also navigates the complexities of cross-border digital asset transactions, treaty interpretation under DTAAs, and the challenges posed by decentralised exchanges and Web3 protocols. In sum, this work serves as a comprehensive guide for legal practitioners, policymakers, and market participants seeking clarity in an era where fiscal sovereignty must contend with technological decentralisation.

INTRODUCTION

The rapid evolution of Web3 technologies, the expansion of tokenised commodities, and the maturation of the Central Bank Digital Currency (hereinafter referred to as CBDC) framework are redefining the landscape of digital finance in India. The Income Tax Act, 2025 (hereinafter referred to as ITA 2025), which will supersede the Income Tax Act, 1961 (hereinafter referred to as ITA 1961) from April 1, 2026, introduces a forward-looking framework that provides clarity on the classification, valuation, reporting, and anti-money laundering (hereinafter referred to as AML) compliance obligations for cryptocurrencies, virtual digital assets (VDAs), and tokenised securities.

This scholarly article examines the legislative evolution, contrasting ITA 2025 with ITA 1961, and delves deeply into the treatment of digital assets—including the practical nuances of classification, TDS/TCS provisions, valuation methodologies, CBDC integration, and the intersection of AML regimes (PMLA 2002 vs ITA 2025). Special emphasis is placed on international tax treaty considerations, cross-border transaction compliance, and the practicalities of reporting within the Indian context. Through comparative tables, analytical discussion, and reference to the latest regulatory developments, the article aims to offer a comprehensive, authoritative resource for scholars, practitioners, policymakers, and digital asset market participants.

The past half-decade has seen a seismic shift in the structure and velocity of Indian financial markets due to the advent of blockchain-based digital assets, the proliferation of Web3 platforms, and regulatory pivoting towards digital, transparent, and internationally harmonised fiscal regimes. The taxation of cryptocurrencies, non-fungible tokens (NFTs), and tokenised securities has moved to the forefront of policy discourse globally, driven by the need to balance innovation, investor protection, and systemic solvency.

India has taken a measured approach, pivoting from uncertainty under ITA 1961 to a regime of clarity and consolidation under ITA 2025. This new Act reflects intensive stakeholder engagement, international benchmarking, and a nuanced understanding of emerging asset classes. As India transitions to this modernised framework, understanding the implications for classification, valuation, reporting standards, and AML compliance, especially in light of the CBDC rollout and international interactions, is both complex and imperative.

I. EVOLUTION OF INCOME TAX LEGISLATION IN INDIA: ITA 1961 VS. ITA 2025

1.1 The Need for Reform

The Income Tax Act of 1961 was a product of its era—comprehensive, yet increasingly outdated due to more than 4,000 amendments, dozens of annual finance acts, and a cascade of piecemeal technical changes over six decades. This resulted in: (a) excessive complexity and interpretational ambiguity, (b) duplicated provisions and inconsistencies, and (c) outdated language that was inaccessible to non-experts.

By the late 2010s and early 2020s, the proliferation of digital assets (Bitcoin, Ethereum, DeFi tokens, NFTs) pushed the boundaries of tax definition and enforcement, exposing significant gaps around property status, capital asset determination, valuation, and capital gain identification.

1.2 Principles and Structure of ITA 2025

The Income Tax Act, 2025, effective April 1, 2026, represents a comprehensive rewrite. Key characteristics include:

- **Textual and Structural Simplification:** The Act is reduced from over 800 sections to 536, grouped in 23 logical chapters and 16 schedules, promoting coherence and accessibility, with clear cross-referencing across heads of income and special provisions.
- **Unified “Tax Year” System:** Eliminates “Previous Year” and “Assessment Year,” adopting a single “Tax Year” concept to align with international practices.
- **Modernised Definitions:** Introduces or redefines key terms such as “Virtual Digital Asset,” “Tokenised Security,” and “Tax Year,” with explicit cross-linking to new forms of digital and tokenised assets.
- **Consolidation of Provisions:** Consolidates TDS/TCS, valuation and reporting under single sections for clarity (e.g., all TDS under Section 393), and streamlines procedural timelines.
- **Digital-First Compliance:** Strong emphasis on faceless assessments, e-filing, automated monitoring, and enhanced taxpayer services to minimise physical interface and reduce

scope for discretion/corruption.

1.3 Comparative Table: Core Differences

Key Area	ITA 1961	ITA 2025	Analytical Contrast
Definitions (Digital Assets)	Section 2(47A): Vague, narrow, piecemeal	Section 2(111): Explicit, covers VDAs, tokens etc.	Clear taxonomy, closes gaps
Heads of Income	5 heads, ambiguous treatment for new assets	Enhanced, explicit VDA & digital categories	Unambiguous digital asset coverage
Tax Year Concept	“Assessment Year”/“Previous Year”	“Tax Year” (FY)	Simpler compliance
Capital Gains (Tokens/Securities)	Lacked clarity, piecemeal amendments	Specific clauses for virtual assets	Predictability and fairness
TDS/TCS Provisions	40+ scattered sections	Consolidated (Sec. 393/394)	Ease of reference, digital reporting
Reporting of VDAs	Weak/optional for most VDAs	Mandatory, detailed (Schedule VDA, auto-reporting)	Strong enforcement, analytics
AML Linkages	Reliant on PMLA only	ITA dovetails with AML via unified reporting	Closed compliance loop

Explanatory Note: The ITA 2025 enhances clarity on digital asset treatment, streamlines compliance, and integrates with AML requirements, representing a paradigm shift from the patchwork amendments of ITA 1961.

II. CLASSIFICATION OF VIRTUAL DIGITAL ASSETS UNDER ITA 2025

2.1 Definition and Scope

ITA 2025, Section 2(111), defines “Virtual Digital Asset” (VDA) as:

- Any information/code/number/token (not being Indian/foreign fiat currency), generated by cryptographic or similar means, providing a digital representation of value exchanged with or without consideration, with promise of intrinsic value, or as a store of value/unit of account—including use in any financial/investment transaction;
- Includes NFTs or tokens of similar nature;
- Any other digital asset as may be notified by the Central Government;
- Any crypto-asset being a digital representation of value based on a distributed ledger, secured via cryptography.

Explicit exclusions: Indian currency, foreign currency, gift cards, reward points, subscription-based access, etc.

2.2 Classification Table

Asset Type	ITA 1961 (Sec. 2(47A))	ITA 2025 (Sec. 2(111) + notifications)	Property/Business/Security
Bitcoin, Ethereum (Crypto)	VDA (ambiguous, 2022 onwards)	VDA (explicit)	Property (always)
Non-Fungible Tokens (NFTs)	VDA (post-2022)	VDA (and property/capital asset)	Intangible property
DeFi Protocol Governance Tokens	Unclear (Investment? Rights?)	VDA	As per functional rights

Asset Type	ITA 1961 (Sec. 2(47A))	ITA 2025 (Sec. 2(111) + notifications)	Property/Business/Security
Tokenised Commodity Receipts	Not covered	VDA (if not fiat or securities)	Property/capital asset
Tokenised Equities (Securities)	Security (in some cases, e.g. SEBI)	VDA unless notified as excluded	Dual (if SEBI-regulated)
CBDC (“e₹”)	Not a VDA (currency)	Excluded from VDA; is “currency”	Legal tender

Analysis: The new law deliberately broadens the VDA definition but empowers the government to exclude CBDCs and specified securities, ensuring regulatory flexibility amid technological change.

2.3 Heads of Income & Classification

- **As Capital Asset:** Most VDAs, when held as investment, are classified as capital assets; gains/losses (though set-off rules apply) are taxed at special rates.
- **Business Income:** Frequent trading/mining is taxed under “Profits and Gains of Business/Profession” but subject to the same 30% flat rate and restrictions as for capital gains.
- **Other Sources:** Gifts, airdrops, staking rewards (on receipt), and certain airdrops are taxed under “Income from Other Sources” at normal tax slab, then at 30% on subsequent disposal.

III. TOKENISED SECURITIES AND COMMODITIES: TAX TREATMENT UNDER ITA 2025

3.1 Definitions and Regulatory Perimeter

Tokenised Security: A digital representation of an equity/debt/derivative instrument issued on

a DLT (Distributed Ledger Technology) platform, the rights and characteristics of which are derived from the underlying security, subject to SEBI regulation.

Tokenised Commodity: A digital certificate/token representing ownership of physical commodities (gold, silver, agri-produce, etc.), held by a custodian and traded via DLT.

- **ITA 2025:** These are included as VDAs **unless** specifically notified as “securities” or legal tender, in which case established capital markets tax rules prevail.

3.2 Tax Treatment Framework

Attribute	Tokenised Securities (Non-SEBI)	SEBI-Regulated Tokenised Securities	Tokenised Commodities
Classification (ITA 2025)	VDA/ Property/ Capital Asset	Security; capital asset (Sec. 196+)	VDA/ Commodity/ Capital Asset
Tax on Transfer	Flat 30% under Sec. 115BBH	Short/long-term CGT per rules	Flat 30% under Sec. 115BBH
Set-off of Loss	Prohibited (VDAs)	Allowed (per securities law)	Prohibited (VDAs)
Indexation Benefit	Nil	Available for LTCG on securities	Nil
TDS Applicable	1% under Sec. 393 (or 194S)	1%/10% on capital market rules	1% under Sec. 393
Reporting Requirement	Schedule VDA	Schedule CG/ITR-2 or others	Schedule VDA
AML Linkage	FIU-IND (VDA SPs); PMLA, ITA	SEBI-registered intermediaries	As per VDA (PMLA, ITA)

Elaboration: While the ITA 2025 enables seamless compliance across token classes, the regulatory perimeter is dynamic: if a security token gains SEBI recognition, normal capital

market rules apply. Otherwise, all tokenised instruments except notified CBDC/Securities are subsumed as VDAs and taxed accordingly.

IV. WEB3 TECHNOLOGIES: TAX AND COMPLIANCE IMPLICATIONS

4.1 Web3 Business Models

Web3 refers to a decentralised internet ecosystem powered by blockchain technology, whereby users interact via smart contracts, DAOs, and token-based economies. Business models include DeFi, NFT marketplaces, play-to-earn gaming, decentralised crowdfunding, and staking services.

4.2 Tax Treatment Under ITA 2025

- **Operating Web3 dApps:** Revenue—whether in crypto, NFTs, or token-based incentives—are taxable as business income, subject to 30% (Sec. 115BBH) for VDA-related receipts, with expenses not deductible except for cost of acquisition.
- **Staking/Mining Income:** Considered business income if systematic; taxed first as “Other Sources” at FMV on receipt, then as 30% capital gains at disposition.
- **Rewards/Airdrops:** FMV on distribution date taxable as “Other Sources,” subsequent disposal attracts 30% CGT; detailed tracking required for “cost” and holding period.
- **Vesting/Token Unlocks:** Claim date FMV is treated as income; potential for double taxation if not carefully planned.

4.3 Challenges

- Determining **Fair Market Value (FMV)** for highly illiquid, fast-moving tokens.
- Accurately reconciling P2P, cross-platform, and cross-border transactions.
- Potential for double taxation and difficulty in matching blockchain addresses to legal persons.

V. CENTRAL BANK DIGITAL CURRENCY (CBDC) FRAMEWORK AND TAX COMPLIANCE

5.1 CBDC Overview

CBDC, or Digital Rupee, is legal tender issued by the RBI in digital form (₹). It is NOT a VDA, is exchangeable at par with physical currency, and is governed by bespoke rules under the RBI Act and not treated as property or capital asset for ITA purposes¹⁰.

5.2 CBDC in Retail and Wholesale

- **Retail CBDC (₹-R):** Used in P2P and P2M transactions, available to the public, denominated identical to physical rupee notes, intended to replicate cash features (anonymity, finality).
- **Wholesale CBDC (₹-W):** For interbank settlements (govt. securities, call markets), not available to the general public.

5.3 Tax Treatment and Reporting

- Transactions in CBDC are not VDA transfers—**not subject to 30% VDA tax or 1% TDS.**
- CBDC payments in the course of business are treated as cash transactions and may be scrutinised under cash transaction provisions (Sections 40A(3), 269SS, 269ST, etc.).
- CBDC wallet transactions are traceable, enhancing compliance/audit trail, even if some anonymity is offered for low-value payments.

Caveat: Unless ITA is specifically amended, compliance obligations (e.g., cash payment limits, TDS on cash withdrawals) could extend to CBDC use, potentially triggering penalties for non-banking compliant digital rupee payments.

5.4 AML and Privacy

CBDC intermediaries must comply with KYC/AML, with managed anonymity regime likely for low-value payments and full transparency for others—balancing privacy and traceability¹⁰.

VI. VALUATION METHODOLOGIES FOR DIGITAL ASSETS

6.1 Legal Basis

- **ITA 2025** delegates FMV determination to subordinate rules (mirroring the earlier Rule 11UA/11UAA structure for shares/securities), with adjustments for new asset classes (NFTs, tokenised commodities).
- The valuation method depends on transaction context: acquisition, gift, transfer, cross-border transfer.

6.2 Valuation Methods

Asset Type	Primary Valuation Method(s)	Regulatory Reference
Crypto-assets (e.g. Bitcoin)	FMV on exchange/market date (weighted average, etc.)	ITA 2025 + rules
NFTs	FMV on date of grant/receipt (Rule 11UA; custom method if non-fungible; auction/market)	ITA 2025, Rule 11UA/11UAA
Unquoted Equity/Token Shares	NAV, DCF, Comparable Company, PWERM, OPM, Milestone Analysis, Replacement Cost	Updated Rule 11UA
Tokenised Commodities	Spot price/registered valuer/custodian statement	ITA 2025 + rules
Gifts/Airdrops	FMV at transfer/receipt date, per exchange price	ITA 2025, Rule 11UA

6.3 Notable Amendments

- **Expanded rule set under 11UA/11UAA:** Includes Comparable Company Multiple, PWERM, OPM, Milestone, Replacement Cost for unquoted shares/tokens (especially for NR investors), with a 10% safe harbour tolerance for FMV vs. issue price¹³.
- **NFT/illiquid asset FMV:** If not traded, FMV determined by expert valuer using

established benchmarks, including for rare NFT art.

6.4 Table: Valuation Methods for Tokenised Assets

Method	Applicability	Features/Notes
Net Asset Value (NAV)	Equity shares, some tokens	Based on book value of underlying assets
Discounted Cash Flow (DCF)	High-growth co's, tokens	Future cashflow projection, discount to present
Comparable Company Multiple	Market-based tokens/shares	Based on similar listed businesses' ratios
PWERM	Venture funding, scenario tokens	Probability-weighted future exit event values
Option Pricing Method (OPM)	VC-backed tokens/complex structures	Allocates value based on rights/preferences
Milestone Analysis	Startups, staged projects	Links value to technical/market milestones
Replacement Cost	Asset-backed tokens, commodities	Price to replace underlying asset

Elaboration: The rules allow flexibility in complex, fast-growing tokenisation scenarios, but the burden of documentation is high and potentially expensive for smaller issuers.

VII. REPORTING REQUIREMENTS UNDER ITA 2025

7.1 Disclosures in Tax Returns

- Mandatory Schedule VDA in ITR-2/ITR-3 for all transactions involving VDAs—trade-by-trade details: acquisition date, transfer date, cost, consideration, TDS deducted, etc.¹⁶.
- Separate heads for capital gains vs business income, depending on nature of transactions.

7.2 Third-Party and Regulatory Reporting

- **Crypto Exchanges/Token Issuers:** Must report all trades, account openings, and transfers involving Indian residents to CBDT, typically on a daily/quarterly basis via automated XML/JSON/CSV formats, mirroring securities market practice.
- **Custodians/Wallet Providers:** Similar reporting to be adopted for held tokenised assets/NFTs; monthly feed to tax authorities.
- **International Context:** Cross-border digital asset trades must be reported, and foreign exchanges serving Indian residents must register and comply with Indian TDS/AML norms¹⁸.

7.3 Table: Reporting Framework

Entity	Asset/Transaction	Frequency	Format	Oversight
Individual	All VDA trades	Annual (ITR)	ITR-2/3	CBDT
Exchange	All token trades	Daily/Quarterly	API/CSV/XML	CBDT
Custodian	Tokenised assets	Monthly	CSV	CBDT
Offshore Exchange	Indian transactions	As required	API/CSV	CBDT, FIU-IND

7.4 Penalties and Audits

Failure to report, incorrect reporting, or hiding VDA income: 60%+ penalty on undisclosed income; repeated non-compliance may attract prosecution.

VIII. TDS AND TCS PROVISIONS FOR DIGITAL ASSETS

8.1 Applicability and Scope

ITA 2025 Section 393 (drawn from legacy Section 194S):

- **TDS @ 1%** on transfer of any VDA if consideration > ₹50,000 (specified person) or ₹10,000 (others) during FY.
- Applies to transfers between residents and is agnostic to payment mode (fiat, VDA, in-kind)²⁰²².

8.2 Practical Scenarios Table

Transaction Type	TDS Applicability	Deductor	TDS Form	Notes
Buying with INR	Yes, if threshold crossed	Buyer/Exchange	26Q/26QE	Indian exchanges typically deduct
Buying via Indian Exchange	Yes	Exchange	26Q	Auto-deducted at sale
P2P Transfers	Yes	Buyer	26Q/26QE	Self-filed by buyer
Crypto-to-Crypto (BTC→ETH)	Yes, both legs	Buyer and Seller	26Q each	Both must deduct/pay 1% each
Gift/Transfer in Kind	Yes, TDS in cash or equivalent	Transferor	26Q/26QE	Must convert for TDS payment
Transaction via Foreign Exchange	No/partial (if non-resident seller)	Buyer		May be outside domestic TDS net, but reporting mandatory

Explanation: With no TAN required for “specified persons” (individuals/HUFs below turnover threshold), the law aims to ease compliance for small actors while ensuring the bulk of trades are covered.

8.3 TCS Provisions

No separate TCS for VDA trades as yet, but relevant for tokenised commodities at the point of original tokenisation, with provisions for future inclusion should tokenised commodity markets expand.

8.4 Penalties

- Non-deduction/remittance attracts penalty equal to non-deducted amount + interest.
- Persistent offenders risk prosecution.

IX. ANTI-MONEY LAUNDERING COMPLIANCE FOR DIGITAL ASSETS

9.1 Regulatory Architecture

- **PMLA 2002** (as amended, March 2023): Brings digital asset service providers—exchanges, custodians, wallet providers—under the “reporting entity” umbrella; all qualifying activities (exchange, transfer, safekeeping, admin, financial services of VDA) are covered.
- **FIU-IND Guidelines (2023–2025)**: Provide granular compliance protocols—registration, principal officer/director appointment, mandatory KYC/CDD/EDD, suspicious transaction reporting (STR), risk assessment/document retention, and implementation of FATF’s “travel rule” for sender/receiver data in all VDA transactions.

9.2 AML Compliance Table

Feature	PMLA 2002 (legacy)	ITA 2025 Regime	Integration Points
Applicability	Banks, FIs, SEBI/IRDA, etc.	All VDA SPs (crypto, DLT)	Full coverage for digital asset intermediaries
KYC Thresholds	High; risk-based	Unified Vod/KYC per RBI/SEBI norms	Documented at onboarding; e-KYC allowed

Feature	PMLA 2002 (legacy)	ITA 2025 Regime	Integration Points
Suspicious Reporting	STR to FIU-IND mandatory	Schedule VDA, integrated with IT	Cross-check via transaction data
International Transfers	Stringent, but legacy focus	Alignment with FATF “travel rule”	All VDA transfers (incl. DEXs) subject to reporting
Beneficial Ownership	>10% control/ownership (companies)	Same, plus public company exception	Applies to VDA wallets too
Enforcement	ED, FIU-IND, MOF	CBDT + PMLA authorities	Penalties up to ₹1 lakh per day (PMLA) + tax penalties

9.3 Table: AML Compliance Steps for VDA Service Providers

AML Step	Requirement	Details
Registration	With FIU-IND	Indian and offshore exchanges must register; up to 31 exchanges already registered (2025)
Designated Director	Appointed, reported	Compliance oversight with MOF, within 7 days of appointment
KYC/EDD	Robust onboarding	Verification: ID, address, source of funds, PEP/sanctions screening
Ongoing Monitoring	Transaction analytics	AI, blockchain analytics, STR/CTR flagging
Record Keeping	5 years minimum	All KYC, transaction, and due diligence records
Transaction “Travel Rule”	Global protocol	Originator/beneficiary data for all VDA transfers

9.4 Comparative Analysis: PMLA 2002 vs ITA 2025

Feature	PMLA 2002	ITA 2025	Commentary
Scope	FIs, select NBFIs	All digital asset actors	Expands perimeter for full compliance
Thresholds	Higher, traditional	Digital asset micro-thresholds	Allow for granular monitoring
Enforcement	ED, FIU-IND	ED, FIU-IND, CBDT	Multi-agency, integrated audits
Reporting	STR, CTR, etc.	Schedule VDA, FIU-IND	Duplicative, but harmonised
International	Partial, case-based	FATF, cross-border	Direct application of “travel rule” (FATF)

X. INTERNATIONAL TAX TREATIES AND CROSS-BORDER DIGITAL ASSETS

10.1 Treaty Application and Challenges

- **Double Taxation Avoidance Agreements (DTAAs):** Standard treaties do not explicitly reference VDAs; they apply by analogy (capital gains/business income), but residency, PE, and source rule disputes abound.
- **OECD/FATF Guidance:** India is converging toward OECD BEPS Pillar I (digital presence), with taxability based on significant economic presence (SEP) for cross-border digital services/digital asset platforms.

10.2 Cross-border VDA Trades

- Indian residents earning via offshore exchanges must report and pay tax in India; DTAAs may provide credit only where a similar gain is taxed abroad (uncommon for cryptos in most jurisdictions as of 2025).
- TDS on inbound remittances: If Indian platform, must deduct per Section 393; where pure offshore transfer, TDS may not apply but must disclose global gains in Indian ITR; may

trigger FEMA scrutiny for large volumes.

10.3 Challenges

- Proliferation of decentralised (DEX), cross-chain protocols make enforcement, KYC, and source residency attribution difficult.
- Airdrops/forks to Indian residents from foreign DAOs: taxed as “other sources” at FMV, but practical reporting challenges abound.

XI. APPENDICES

11.1 Table: Classification of Digital Assets: ITA 1961 vs ITA 2025

Asset Type	ITA 1961 Classification	ITA 2025 Classification	Main Tax Impact
Cryptocurrencies	VDA (from 2022), unclear	VDA (explicit), property	Flat 30%; TDS 1%
NFTs	VDA (from 2022), property	VDA (explicit), property	Flat 30%; TDS 1%
Tokenised Securities	Unclear, sometimes “security”	VDA unless SEBI-notified security	30% unless normal CGT applicable
Tokenised Commodities	Unclear	VDA unless notified commodity	30%
CBDCs (₹)	Not a VDA	Explicitly “currency”, not VDA	Treated as legal tender (Not taxed)
Airdrops/Rewards	“Other sources”	“Other sources” at receipt; 30% CG on disposal	Double reporting

11.2 Illustrative Scenario Table: TDS and Reporting

Example	TDS Triggered?	ITR Schedule	Additional Reporting	Notes
Buy 1 BTC on WazirX (Rs 10L)	Yes	Schedule VDA	Exchange 26Q filing	1% TDS auto-deducted
Sell NFT for INR 1L	Yes	Schedule VDA	Seller 26Q self-filing	Buyer must deduct at source
Receive 5,000 DOGE via airdrop	No (on receipt)	ITR “Other Sources”	Exchange/issuer STR	FMV taxed as income
Spend ₹ (CBDC) at a merchant	No	Not required	Not a VDA	Payment treated as cash
Trade tokens on foreign DEX, no INR involved	No, but disclosable	Schedule VDA	Per FEMA/DTAAs	Taxable regardless of INR use

XII. CONCLUSION

The ITA 2025 marks a watershed moment in Indian fiscal policy, heralding a new era of digital asset taxation, reporting, and anti-money laundering enforcement. Its comprehensive, forward-looking provisions afford clarity on classification, valuation, and reporting, vital for the integrity of the expanding digital asset ecosystem. The act’s digital-first, taxpayer-centric approach, integration with AML frameworks, and compatibility with international best practices position India as a global leader, even as the digital economy continues to evolve.

For practitioners and market participants, the primary challenge is to future-proof compliance: maintain rigorous documentation, use specialist valuation for complex tokens, embrace full reporting in Schedule VDA, and ensure robust AML protocols, including KYC and cross-border reporting. As India moves to the “tax year” regime, the convergence of technology, policy, and compliance exemplified by the ITA 2025 will set benchmarks that may guide other regulatory jurisdictions grappling with similar issues in the age of tokenisation and Web3.

XIII. REFERENCES

The article draws upon and references the following primary sources and frameworks, *inter alia*:

1. Income Tax Act, 1961
2. Income Tax Act, 2025 (draft and enacted provisions)
3. Prevention of Money Laundering Act, 2002 (as amended in 2023)
4. RBI guidelines on Central Bank Digital Currency (CBDC)
5. OECD BEPS Pillar I and FATF “Travel Rule” guidance
6. SEBI regulations on tokenised securities
7. FIU-IND compliance protocols (2023–2025)
8. Rule 11UA and 11UAA (valuation methodologies)
9. Double Taxation Avoidance Agreements (DTAAs)
10. CBDT circulars and reporting formats (ITR-2, Schedule VDA, etc.)